

# UNIVERSITY OF CALIFORNIA - STANDARD PRACTICES

Section: 15 Subcontracting By Negotiation

Subject: 15.6 Cost or Price Analysis

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| <b>PURPOSE:</b>            | This standard practice (SP) describes the Laboratory's requirements for the analysis of a subcontractor's proposed cost or price.   |
| <b>POLICY:</b>             | Supplies and services shall be obtained from responsible sources at fair and reasonable prices. When establishing the reasonableness of offered prices, the Laboratory shall not obtain more information than is necessary. The unnecessary submission of cost or pricing data may increase proposal preparation costs, extend the acquisition lead time, and waste Laboratory and subcontractor resources.   |
| <b>SCOPE:</b>              | This SP applies to all subcontracts. Procedures for determining price reasonableness for small purchases are found at SP 13.1, <i>Small Purchases</i> .   |
| <b>DEFINITIONS:</b>        |   |
| <b>Commercial Item</b>     | A commercial item is an item other than real property that is regularly used for nongovernmental purposes and sold, leased, or licensed or offered for sale, lease, or license to the general public in the normal course of business operations. This includes items with minor modifications not normally available in the commercial market place. It also includes any items that have evolved from a commercial item and will be available in the commercial market place in time to satisfy the delivery requirements under a solicitation issued by the Laboratory. Commercial services, as defined below, are a subset of commercial items.                                   |
| <b>Commercial Services</b> | <p>Commercial services are installation, maintenance, repair, training, and other services if such services are in support of a commercial item and if the source of the services offers such services to the general public under similar terms and conditions and with the same work force as to the general public.</p> <p>Commercial services also include those of a type offered and sold competitively in substantial quantities in the commercial marketplace based upon established catalog or market prices for specific tasks performed under standard commercial terms and conditions. The term does not include services sold at hourly rates for unspecified tasks.</p> |
| <b>Cost Analysis</b>       | Cost analysis means the review and evaluation of the separate cost elements and proposed profit of an offeror's or subcontractor's cost or pricing data or information other than cost or pricing data and the judgmental factors applied in projecting from the cost or pricing data to the estimated costs in order to form an opinion on the degree to which the offeror's proposed costs represent what the cost of the subcontract should be, assuming reasonable economy and efficiency.  |

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**Cost or Pricing Data**

Cost or pricing data consists of all of the facts on price, existing at the time of agreement or other mutually agreeable date, that prudent buyers and sellers would reasonably expect to affect price negotiations significantly. Cost or pricing data must be certified in accordance with SP 15.5, *Cost or Pricing Data* (see Information Other Than Cost or Pricing Data).

**Cost Realism**

Cost realism means the costs in an offeror's proposal are realistic for the work to be performed, reflect a clear understanding of the requirements, and are consistent with the various elements of the offeror's technical proposal. Cost realism analysis is necessary to protect the Laboratory and the Government from the risk associated with unrealistically high or low prices and estimated costs.

**Established Catalog Prices**

Established catalog prices are prices, including discount prices, recorded in a catalog, price list, schedule or other verifiable and established record that (a) are regularly maintained by the manufacturer or supplier and (2) are published or otherwise available for customer inspection. The term includes data kept in electronic data bases.

**Established Market Prices**

Established market prices are current prices that are established in the course of ordinary and usual trade between buyers and sellers free to bargain and that can be substantiated from sources independent of the manufacturer or subcontractor.

**Fair and Reasonable Price**

A fair and reasonable price is one that does not exceed that which would be incurred by a prudent person in the conduct of competitive business and need not be the lowest available, but is the one that offers the best value to the Laboratory.

**Information Other Than Cost or Pricing Data**

Information other than cost or pricing data is any type of data that is not required to be certified in accordance with SP 15.5, *Cost or Pricing Data*, and that is necessary to determine the reasonableness or realism of an offeror's proposed price.

**Price**

Price is the monetary amount given, received, or asked for in exchange for goods or services.

**Price Analysis**

Price analysis is the process of examining a proposed price without evaluating its separate cost elements and proposed profit.

**Sales to the General Public**

Sales to the general public are sales other than to affiliates of the seller and for nongovernmental use. Sales to national laboratories are not considered sales to the general public.

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## **Substantial Quantities**

An item is sold in substantial quantities if there are sales of more than a nominal quantity based on the norm for the industry segment. The term does not include models, samples, prototypes, or experimental units. For services to be sold in substantial quantities, they must also be customarily provided by the offeror using personnel regularly employed and equipment, if any is necessary, regularly maintained principally to provide the services.

## **Technical Analysis**

Technical analysis is the review and evaluation of an offeror's proposal by personnel having specialized knowledge, skills, experience, or capability in engineering, science, or management of the proposed quantities and kinds of materials, labor, processes, special tooling, facilities, and associated factors set forth in a proposal. Technical analysis is done to determine and report on the need for and reasonableness of the proposed resources, assuming reasonable economy and efficiency.

## **Technical Review**

Technical review is the evaluation of an offeror's proposal to determine whether it meets the technical requirements of the solicitation.

## **PROCEDURES:**

### **Determination of Reasonable Price**

The following order of preference must generally be followed to determine the type of information required in order to determine the reasonableness of a subcontractor's price:

- No further information from the offeror if the price is based upon adequate price competition, except for that necessary to determine cost realism;
- Information other than cost or pricing data, such as:
  - Information related to prices (such as established catalog or market prices) that relies first on information available within the Laboratory or the government, second on information obtained from sources other than the offeror, and, third, if necessary, on information obtained from the offeror; or
  - Cost information that does not meet the definition of cost or pricing data; or
- Cost or pricing data.

In all cases, the determination of price reasonableness must be based upon price and/or cost analysis using no more information than is necessary.

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## Documentation of Determination

The determination that a price is fair and reasonable must be documented in every subcontract exceeding \$25,000. If cost or pricing data are not required in the case of any price negotiation exceeding \$500,000, the exemption used and the basis for using it must be documented in the subcontract file.

## Information Other Than Cost or Pricing Data

If information other than cost or pricing data is required to support the determination of price reasonableness or cost realism, such information may be submitted on Standard Form 1448 (SF-1448), *Proposal Cover Sheet (Cost or Pricing Data Not Required)*. The information must be submitted at the level of detail described in the solicitation. The offeror's own format is acceptable unless the procurement specialist determines that use of a specific format is necessary.

If adequate price competition is

- Anticipated, the information may include cost or technical information necessary to determine the cost realism and adequacy of the offeror's proposal. Such information may consist of that necessary to adequately validate that the proposed costs are consistent with the technical proposal or cost breakdowns to help identify unrealistically priced proposals.
- Not anticipated and the offer is expected to be \$500,000 or less, the information may consist of data to permit the procurement specialist to determine price reasonableness, such as information to support an analysis of material costs or information on prices and quantities at which the offeror has previously sold the same or similar items.
- Not anticipated and the value of the award will exceed \$500,000, obtain either (1) information other than cost or pricing data or (2) cost or pricing data, as the circumstances dictate. See the clauses suggested in SP 15.5, *Cost or Pricing Data*.

## Cost or Pricing Data

When cost or pricing data are required, the offeror must submit the data on Standard Form 1411 (SF-1411), *Contract Pricing Proposal Pricing Sheet*, with supporting attachments (see SP 15.5, *Cost or Pricing Data*).

## Exemption from Submission of Certified Cost or Pricing Data

For guidance regarding exemptions from submission of certified cost and pricing data, see Standard Practice 15.5.

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## Price Analysis

If cost or pricing data are not required because an exemption applies or a transaction is less than the cost or pricing data threshold, price analysis must be performed to determine the reasonableness of the price and the need for further negotiations.

Price analysis is based on data obtained from sources other than the prospective subcontractor's proposal. The following techniques, among others, may be used for price analysis:

- Comparison with other prices and proposals submitted;
- Comparison with prior negotiated or competitively awarded prices for the same or similar items;
- Comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements; or
- Comparison with independent estimates of cost developed by knowledgeable personnel within the Laboratory.

The administrative expense of performing cost analysis for subcontracts below \$500,000 is usually prohibitive and price analysis is preferred. For small purchases, the guidelines in SP 13.1, *Small Purchase Procedures*, should be used for determining the reasonableness of a proposed price.

**Technical Review** — A technical review should be requested from and performed by the requester when assistance is required to determine whether a proposal meets specifications.

## Best-Value Source Selection

Under the best-value source selection methodology, when price (cost and fee) is a substantial factor in the selection of a subcontractor, cost or pricing data are not required. In most cases, the determination that the price is fair and reasonable and that costs are realistic may be determined through a cost or price analysis using information other than cost or pricing data.

## Cost Analysis

**Cost Analysis/Realism Techniques** — When the proposed price is based upon cost or pricing data or information other than cost or pricing data, the following techniques may be used, as appropriate, to perform a cost analysis or determine the realism of the proposed costs.

- Verification of cost or pricing data and evaluation of cost elements, including:

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- The necessity for and reasonableness of proposed costs, including allowances for contingencies;
- Projection of the offeror's cost trends based on current and historical cost or pricing data;
- A technical evaluation of the estimated labor, material, tooling, and other factors; and
- The application of audited or negotiated indirect cost rates, labor rates, cost of money, or other factors;
- Comparison of costs proposed by the offeror for individual cost elements with:
  - Actual costs previously incurred by the offeror;
  - Previous cost estimates from the offeror or from other offerors for the same or similar items;
  - Independent cost estimates by technical personnel;
  - Forecasts or planned expenditures; or
  - The effects of past practices on future costs; and
- Verification that the offeror's cost submissions are in accordance with the cost principles of FAR Part 31 and DEAR Part 931 and applicable Cost Accounting Standards, as necessary (see SP 30.1, *Cost Accounting Standards*).

**Cost Breakdown** — Analysis of the subcontractor's costs may reveal that discussions are required in any or all of the cost elements, such as the following:

- Material costs;
- Direct labor rates;
- Fringe benefit rates;
- Overhead;
- General and administrative (G&A) rates;
- Profit or fee; or
- Any other proposed elements of cost.

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**Technical Analysis** — A technical analysis must be performed to support a complete cost analysis. The analysis should include an in-depth assessment of the qualitative and quantitative aspects of the proposal, including proposed kinds and quantities of labor, materials, processes, special tooling, facilities, and associated factors set forth in the proposal. The depth of the analysis and supporting documentation should be consistent with the complexity, size, and uniqueness of the proposal. (A technical analysis that does not meet the requirements of this SP should be returned to the requester for rework.) The technical analysis must be included in the subcontract file.

## Laboratory-Specific Instructions:

- At LANL, use the *Guidance for Performing Technical Analysis* to request a technical analysis from the requester.
- At LLNL, use the *Desk Guide for Technical Evaluation of Cost Proposals* and SI 15.6.2, *Technical Analysis of Cost Proposals*.

**Pre-Award Audits** — A pre-award audit must be obtained for all subcontracts exceeding \$5 million in which the price, including initial prices, estimated costs of cost-reimbursement subcontracts, interim and final price redetermination, and target and settlement of incentive subcontracts, will be based on cost or pricing data. A pre-award audit should be considered for subcontracts less than \$5 million when the available pricing information does not fully support the reasonableness of the proposed costs. (Purchases under Federal Supply Schedule contracts do not require pre-award audits.)

## Laboratory-Specific Instructions:

- At LANL, pre-award audits are performed as described in SI 15.6.
- At LLNL, pre-award audits are performed as described in SI 15.6.1.

**Field Pricing Support** — The threshold for requesting field pricing support from a government agency is \$5 million. Such support need not be requested if there is adequate data to support the reasonableness of the offeror's proposed price. Three types of field pricing support are available:

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- Complete — Includes cost/price analysis, technical reviews, and an audit report by the cognizant audit agency;
- Audit Plus Technical — The audit report or other pricing input incorporates the results of a technical review by the cognizant audit agency; and
- Audit or Other Pricing Input — The report from the cognizant audit agency will be marked as lacking a technical review.

**Prenegotiation Objectives** — Prenegotiation objectives should be established using all sources of input, including technical reviews, audit reports, etc. Significant variations from the sources of input must be clearly documented in the subcontract file. Prenegotiation objectives should:

- Eliminate extraneous costs;
- Base the negotiated price on cost or pricing data that are accurate, complete, and current; and
- Exclude items unallowable by FAR and DEAR cost principles.

## Laboratory-Specific Instructions:

- At LANL, see SI 1.2, *Delegation of Procurement Authority*, for guidelines pertaining to prenegotiation objectives.

**Negotiations** — Negotiations with the offeror are undertaken using information from the pre-award audit, if applicable; the procurement specialist's independent cost or price analysis; the cost/price analyst's report; the technical analysis; and the procurement specialist's profit/fee objective, if applicable. (See SP 15.10, *Profit/Fee Objective*.)

While there may be nothing inherently incorrect about relying upon an offeror's proposal, such acceptance must be based upon a thorough understanding of the rationale and methodology of the estimate and should not preclude the exploration and presentation by the procurement specialist of other methods of arriving at an estimate.

The objective of negotiation is to reach a fair and reasonable price. While the offeror may disagree with the procurement specialist's position in whole or in part, it is the procurement specialist's responsibility to negotiate to the best of his or her ability. It is an inherent aspect of negotiations that compromises may have to be made.



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## Cost or Pricing Data

For procedures for obtaining certified cost or pricing data or allowing an exemption, see SP 15.5, *Cost or Pricing Data*.

## RESPONSIBILITIES:

### Procurement Specialist

The procurement specialist must:

- Ensure that requests for cost/price analysis or cost/technical assistance clearly describes the assistance needed;
- Determine and document the reasonableness of an offeror's cost or price using either price or cost analysis techniques, or both;
- Ensure the level of analysis is commensurate with the value of the subcontract;
- Require the offeror to provide any necessary supporting data and information absent from the proposal and required for performing cost or price analysis;
- Ensure that a cost analysis is performed whenever cost or pricing data is required;
- When cost analysis is used, perform a complete analysis of the offeror's cost proposal using the recommendations of the field pricing support personnel or the cost/price analyst, if used, and the technical analysis before beginning negotiations;
- Establish prenegotiation objectives;
- Obtain accurate, complete, and current data for cost or price analysis on a *Contract Pricing Proposal Cover Sheet* (SF 1411) with supporting attachments (see SP 15.5, *Cost or Pricing Data*) for subcontracts that do not meet an exemption;
- Obtain information other than cost or pricing data on SF-1448, *Proposal Cover Sheet (Cost or Pricing Data Not Required)*, as appropriate;
- Obtain a pre-award audit, when required; and
- Negotiate a fair and reasonable price.

### Requester

When necessary, the requester must perform a technical review or analysis of proposals to determine and report on the need for and reasonableness of the proposed resources assuming reasonable economy and efficiency.

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| **CLAUSES:** | Include the following clause in solicitations and subcontracts when submission of cost or pricing data is expected to be exempted based on procurement of commercial items:

| FAR 52.215-43, Audit-Commercial Items (Oct 1995)

| In addition, see SP 15.5, *Cost or Pricing Data*.

**REFERENCES:** | DEAR 970.5204-22(e)(ii), -24 and -44(b)(5)